

Enterprise Risk Management (ERM) System

In compliance with Memorandum Circular (MC) No. 2012-07 dated 28 November 2012 or the Code of Corporate Governance for GOCCs, PSALM has commenced the implementation of its ERM Program through the series of Training-Workshops conducted by Neville-Clarke Philippines, Inc in November - December 2013. The ERM Manual was formulated as a result of the activities undertaken during the Training-Workshops, with inputs and comments from PSALM Functional Groups and Departments.

The salient features of the PSALM ERM System which are also disclosed in the 13 January 2015 Board-Approved ERM Manual are as follows:

I. ERM Policy

PSALM shall adopt the following ERM Policy statement:

“We, the Management and employees of PSALM, are committed to implement an ERM System to effectively manage all associated risks in order to ensure timely attainment of our mandate on asset and liability management, and UC administration, with the end goal of contributing to the attainment of societal goals and objectives.”

Specifically, the ERM System shall manage the risks and opportunities on the following corporate objectives:

- Liquidate PSALM’s financial obligations;
- Fast-track privatization in an optimal manner;
- Effectively manage all risk exposures, particularly financial market risks due to foreign exchange fluctuations, interest rates volatility and funding liquidity;
- Apply for and collect the UC-SD and UC-SCC to effectively narrow down, if not close, the gap between privatization proceeds and maturing obligations; and
- Improve operating results of PSALM’s remaining generation plants and IPP assets pending their privatization to provide reliable power supply to its customers.

To ensure the effective implementation of the ERM System, PSALM commits to:

- Ensure the alignment of the ERM System with the Corporation’s existing management system and culture;
- Establish risk management objectives and performance indicators that are aligned with corporate objectives and performance scorecard;

- Comply with legal and regulatory requirements;
- Designate and assign accountabilities and responsibilities at all levels within the Corporation;
- Provide necessary resources to assist those accountable and responsible for managing risks;
- Communicate the objectives and benefits, as well as the guidelines and procedures of the ERM System to the PSALM Board, officials and employees and relevant stakeholders;
- Balance conflicting interests in a transparent, consultative and objective manner; and
- Continually improve the ERM System through regular monitoring, measurement and review.

II. Scope and Coverage of the ERM System

The ERM System shall be implemented at two (2) levels, namely: (1) strategic and (2) operational. The strategic level ERM shall cover all risks associated with fulfilling corporate objectives and mandates as indicated in its corporate plan/performance scorecard, as well as special projects and transactions. On the other hand, the operational level ERM shall cover all risks associated with the fulfillment of all business process objectives contributing to the attainment of corporate objectives.

The System shall apply to all levels of organizational units as illustrated in Figure 2 of this Manual, and shall be implemented by all officials and personnel.

For outsourced operation and maintenance of its remaining power assets, PSALM shall ensure that the operators/service providers shall formulate and adapt a risk management system following applicable industry standards.

III. Accountability, Responsibilities and Structure

To ensure the accountability, authority and appropriate competence for managing risk, including implementing and maintaining the risk management process and ensuring the adequacy, effectiveness and efficiency of any control, the roles and responsibilities as represented in Figure 1 and listed in Table 1 shall be observed.



Figure 1: PSALM's ERM Structure

The PSALM Board, as mandated under the Code of Corporate Governance, has the primary responsibility to ensure the establishment, implementation and continuous improvement of the ERM System, as well as the allocation of necessary resources to manage the risks. This function of the Board shall be discharged by the BRC, which shall be responsible for the following:

- Performing oversight risk management functions specifically in the areas of managing credit, market, liquidity, operational, legal, reputational and other risks of PSALM, and crisis management, which shall include receiving from Management periodic information on risk exposures and risk management activities;
- Developing the Risk Management Policy of PSALM, ensuring compliance with the same and ensure that the risk management process and compliance are embedded throughout the operations of PSALM, especially at the Board and Management levels;
- Providing quarterly reporting and updating the Board on key risk management issues; and
- Ensuring that appropriate ERM principles and standards are applied in all decisions of the PSALM Board.

The IAD shall integrate into its annual audit program the audit of the ERM System to determine the conformity and the effectiveness of its implementation, its conformance with the ISO 31000:2009 standards, and possible areas for improvement.

The Chief ERM Officer shall take the lead in ensuring the establishment, implementation and monitoring of the ERM System. Further, the Chief ERM Officer shall be responsible for the regular reporting of the overall ERM System

performance to ManCom and the BRC. The Chief ERM Officer shall be provided with technical support by the Deputy ERM Officer.

The ERM Project Monitoring Group (PMG) shall monitor, review and evaluate the ERM System and shall regularly report to the Deputy and Chief ERM Officers its findings on the implementation of the System. It shall also manage the ERM Database.

In order to ensure continual improvement of the System, the ERMPMG may convene an ERM Technical Team (Team) to implement and monitor the ERM System, to verify the output consolidated by the ERMPMG and report the same to the Chief ERM Officer, to assess the effectiveness of the plan provided by the concerned department, to decide what are to be prioritized or what are the high risk event, establish standards and procedures in the implementation of the ERM System as necessary. The Team shall be composed of all DRM Officers and selected personnel from units that are deemed exposed to potential risks.

The Risk Owners shall be responsible for the management, monitoring and control of an identified risk, including the implementation of the selected responses. They shall be required to assess their risks and report the status to the ERMPMG.

The Process Owners shall be responsible for identifying the risks involved in achieving the Departmental objectives, updating and assessing the identified risks, and implementing the Risk Treatment Plan (RTP) for each risk assessed. In each department, a DRM Officer shall be designated to take the lead in ERM-related activities of the department, including the monitoring of RTP and reporting of results to the department manager and ERMPMG.

The responsibilities per stage of the ERM process and per level of risk management are defined in Table 1.

Table 1: *Responsibilities under the ERM System*

Risk Management Task/Stage	Responsible Person/Unit	
	Operational Risk Management	Strategic Risk Management
<ul style="list-style-type: none"> Establishing the Context/Strategic Planning/Review of the ERM System 	Department Risk Management (DRM) Officer and Risk Owners (Department Managers/Project Owners)	ManCom, Risk Owners (Department Managers/Project Owners) and ERMPMG
<ul style="list-style-type: none"> Risk Identification, Analysis, and Evaluation 	Process Owners	Concerned Risk Owners (Department Managers/Project Owners)
<ul style="list-style-type: none"> Formulation of RTP 	Process Owners and Risk Owners (Department Managers/Project Owners)	Risk Owners (Department Managers/Project Owners)
<ul style="list-style-type: none"> Review of RTP 	Deputy ERM Officer and ERMPMG	Chief ERM Officer, ManCom and BRC
<ul style="list-style-type: none"> Approval of RTP 	Chief ERM Officer and	Board

Risk Management Task/Stage	Responsible Person/Unit	
	Operational Risk Management	Strategic Risk Management
	ManCom	
<ul style="list-style-type: none"> Implementation of RTP 	Process Owners	Concerned Risk Owners (Department Managers/Project Owners)
<ul style="list-style-type: none"> Monitoring of RTP and Reporting of Results 	DRM Officer and Risk Owners (Department Managers/Project Owners)	ERMPMG
<ul style="list-style-type: none"> Audit 	IAD	IAD
<ul style="list-style-type: none"> Monitoring, review and evaluation of ERM System Management of the ERM Database 	ERMPMG	ERMPMG
<ul style="list-style-type: none"> Approval of ERM Manual 		ManCom and Board
<ul style="list-style-type: none"> Allocation of Resources 	Department Manager, Budget and Property Management Department (BPMD) and Office of the PCEO	Board
<ul style="list-style-type: none"> Communication and Consultation with Internal and External Stakeholders 	DRM Officer, Risk Owners (Department Managers/Project Owners) and ERMPMG	ManCom, Risk Owners (Department Managers/Project Owners) and ERMPMG

IV. ERM Framework

To provide the foundation and arrangements for an effective ERM System, PSALM shall adopt the standards provided under ISO 31000:2009 (Risk Management - Principles and Guidelines). In implementing the ERM System, PSALM shall be guided by the risk management framework as illustrated in Figure 2.

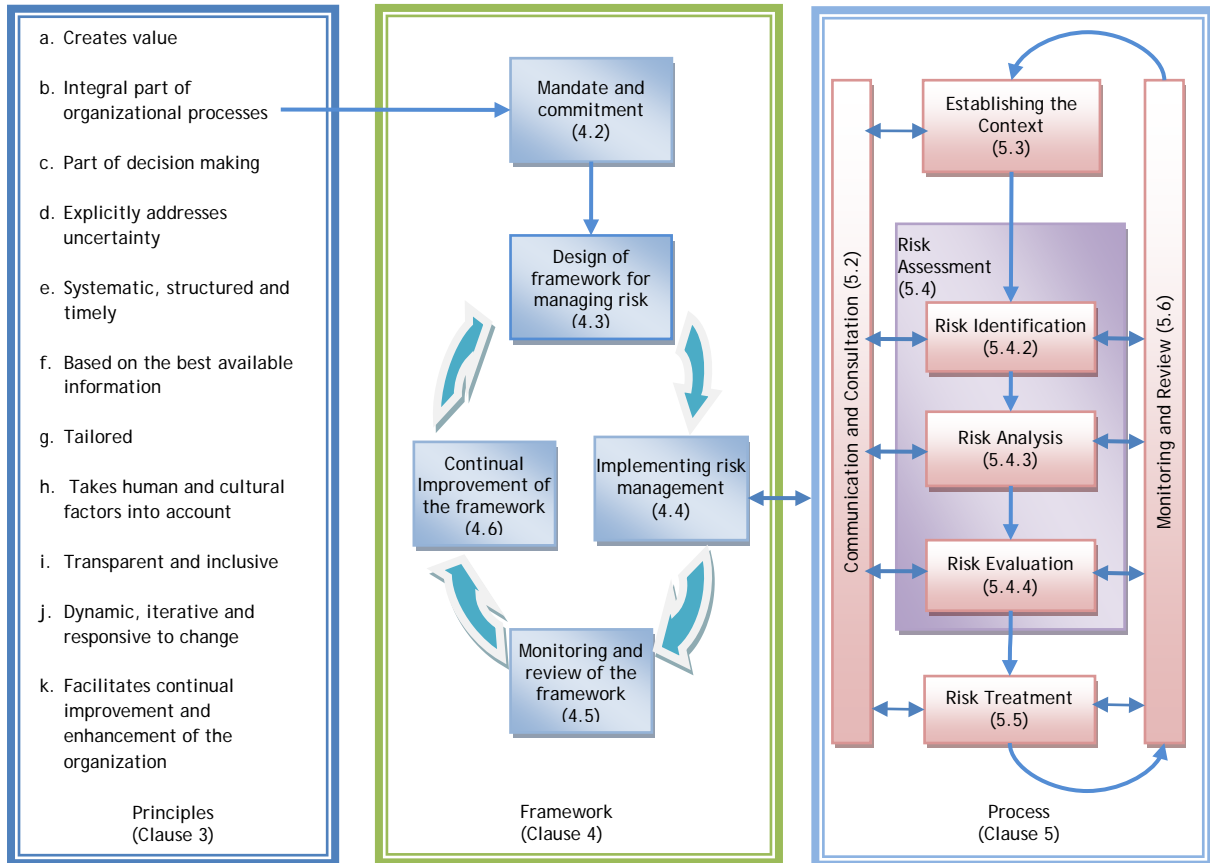


Figure 2 -ISO 31000:2009 Principles, Framework and Process

To ensure effectiveness of PSALM's ERM System, all units and personnel shall apply the risk management principles provided in Clause 3 of ISO 31000:2009 (as illustrated in Figure 2) at all levels of the Corporation.

The ERM Framework mirrors the Plan-Do-Check-Act (PDCA) cycle. Its major elements include:

- **Policy and Governance**
Provides the mandate and demonstrates the commitment of the organization
- **Program Design**
Design of the overall framework for managing risks on an ongoing basis
- **Implementation**
Implementing the risk management structure and program
- **Monitoring and Review**
Oversight of the management system structure and performance
- **Continual Improvement**
Improvements to the performance of the overall management system

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